

**Top Secret 217**

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NATIONAL INTELLIGENCE DAILY CABLE

Monday May 2, 1977

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**NATIONAL SECURITY INFORMATION**

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State Dept. review completed

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National Intelligence Daily Cable for Monday May 2, 1977.

The NID Cable is for the purpose of informing senior US officials.

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PAKISTAN: More Negotiations

25X1 [redacted] //Prime Minister Bhutto and his opponents  
have moved closer to a resolution of Pakistan's political crisis.  
A compromise would weaken the Prime Minister, but he may hope  
his allegations that the US is conspiring with the opposition  
will eventually allow him to regain much of his power.

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25X1 [redacted] //Bhutto and the jailed leaders of the oppo-  
sition may have agreed in principle to hold new national and  
provincial assembly elections, one of the opposition's two main  
demands. The opposition may be willing to weaken its other  
demand--Bhutto's immediate resignation. It is now discussing  
installation of a coalition government, headed by Bhutto, that  
would rule until the elections.//

25X1 [redacted] //A major remaining difficulty is the oppo-  
sition's reluctance to trust Bhutto to abide by an agreement  
and to hold honest elections. The opposition has asked Saudi  
Arabia and the United Arab Emirates to guarantee any agreement.  
Opposition leaders hope that pressure from these important do-  
nors of aid to Pakistan will keep Bhutto in line.//

25X1 [redacted] If there is an election, Bhutto may make US support  
for the opposition his major issue. The US embassy believes  
Bhutto may think his attack on the US last Thursday has greatly  
improved his position. The government-controlled press is echo-  
ing Bhutto's charges.

25X1 [redacted] Bhutto has continued to accuse the US of working for  
his downfall and is using a letter from Secretary Vance--without  
revealing the letter's full contents--to imply that there is  
some substance to the charges. The secretary's letter, in fact,  
emphatically denied Bhutto's allegations.

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[redacted] Pakistan has been relatively calm for the past week, and the opposition's major demonstration in Islamabad and neighboring Rawalpindi on Saturday fell far short of its past efforts in other cities. The low level of violence, however, has been due largely to the opposition's desire to avoid a confrontation that could upset the negotiations. If a political compromise proves impossible, violence could quickly erupt throughout the country. [redacted]

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CHINA: May Day Activities

[ ] China marked May Day with a concerted effort to bolster the image of new party chairman Hua Kuo-feng as a theoretician and the interpreter of the late Mao Tse-tung's teachings. The official party newspaper People's Daily published a long article written by Hua analyzing the latest volume of Mao's works released last month.

[ ] The publication of Hua's article was more important than its content, which was unexceptional. There have been signs for over a month that Hua's legitimacy as Mao's successor has come into question. A provincial newspaper last month called for an end to attacks on Hua.

[ ] Other May Day festivities also seemed designed to drive home the point that Hua is Mao's rightful heir. A large oil painting of Mao and Hua having a "heart to heart" talk was placed in each of Peking's parks where people gathered to celebrate the holiday. The painting was entitled "With you in charge, I am at ease," a statement Mao made to Hua a year ago and one that has been used as evidence that Mao personally passed the mantle to Hua.

[ ] The official Chinese news agency also noted the memorial hall that will soon house Mao's body contains an inscription over its entrance in Hua's own handwriting, another link between the past and present party chairmen.

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[redacted] In keeping with past practice, China's leaders celebrated the holiday by attending parties in Peking's parks in separate groups, thus avoiding a full accounting of the current pecking order. All active Peking-based members of the Politburo were on hand as well as one of the three provincial-based Politburo members, Shenyang Military Region commander Li Te-sheng. Li may have come to Peking to attend an industrial conference that was moved to the capital after its opening sessions were held in his home region. [redacted]

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LONDON ECONOMIC SUMMIT: West Germany

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[redacted] //This is the sixth in a series of articles examining the points of view of the major developed countries participating in the London Economic Summit on May 7 and 8.//

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25X1 [ ] //West Germany is convinced it has been doing its share to support global recovery by extending loans to weaker EC partners, maintaining strong import growth, and permitting a steady appreciation of the Deutschemark. In addition, the West German government has recently approved a \$6-billion public investment program, to be phased in as needed during the next four years.//

25X1 [ ] //Schmidt would probably be willing to commit his government to make every effort to achieve its forecast of 5-percent real Gross National Product growth despite recent indications that growth is lagging behind the forecast. Bonn is afraid that any additional stimulus would generate more inflation than growth or employment.//

25X1 [ ] //Schmidt will continue to endorse financial assistance to deficit countries. He believes that such aid should be channeled through the International Monetary Fund because it can attach fiscal and monetary conditions to loans more easily than individual creditors. West German support of a special deficit-payments facility in the IMF presupposes that at least half the \$16 billion provided for in the IMF fund would be supplied by the OPEC countries. Schmidt favors a 25-percent increase in IMF quotas.//

25X1 [ ] //The West Germans will fully support US efforts to achieve early agreement on comprehensive tariff reductions as well as extensive dismantling of nontariff barriers. They are concerned about the threat of protectionism because of

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their dependence on foreign trade. West Germany, unlike some EC partners, has no strong preference for any particular formula for tariff reduction. As the largest agricultural importer in the EC, it is more receptive than other EC members to US proposals for linking negotiations on industrial products to those on agricultural commodities.//

25X1 [ ] //Nuclear technology will be the most important topic at the summit for West Germany. Bonn shares US concern over nuclear proliferation, but insists that its agreement with Brazil complies with all international agreements including the Nonproliferation Treaty. Schmidt intends to go ahead with the Brazilian contract and seek new foreign sales of nuclear reactors. He will, however, abide by future international agreements on nuclear exports provided West German industry is assured of nondiscriminatory treatment.//

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25X1 [ ] //Bonn is not in a position to support a specific target for reducing its dependence on imported oil since its long-term energy plan is still being debated and modified in the Bundestag. Schmidt also would probably reject a proposal that West Germany match the US energy conservation effort, since per capita energy consumption in West Germany is already significantly below that in the US.//

25X1 [ ] //On the issue of stabilizing export earnings, Schmidt would be willing to accept selected commodity agreements and would agree to some type of common fund that acted as a financial clearing house for individual buffer stock mechanisms, even though West Germany has been promoting expansion of loan facilities as an alternative to such measures.//

25X1 [ ] //More strongly than other EC members, Bonn would seek reciprocal concessions from developing countries, particularly guarantees of security for its expanding investments in those countries, and would like OPEC guarantees not to use oil embargoes for political purposes. The Schmidt government also seeks to tie the USSR and East European countries into agreements reached on North-South issues. [ ]

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JAPAN: Fast-Breeder Reactor

*[redacted] Japan's experimental fast-breeder reactor went into operation on April 24, making Japan the fifth country to have such a reactor in operation. The reactor uses plutonium obtained from reprocessing in the UK. Japan has also scheduled tests this year for its own fuel reprocessing plant and hopes to begin full operation of the facility next year.*

*[redacted] The fast-breeder reactor began operation at a thermal power level of 50 megawatts, but there are plans to increase it eventually to 100 megawatts. The plutonium used in the reactor was produced in a Japanese power reactor supplied and fueled by the UK; the spent fuel was reprocessed in the UK and the recovered plutonium returned to Japan for use in the fast-breeder program. An advanced thermal reactor, which also will use plutonium as fuel, is scheduled to begin operation early next year.*

*[redacted] Tests of Japan's pilot fuel reprocessing plant, using irradiated fuel originally supplied by the US, are scheduled to begin in July, but permission for the reprocessing must be obtained from the US. This permission has not been granted.*

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